

DEFENSE PRODUCTION ACT, LOAN GUARANTEE ACTIVITIES

PURPOSE OF THE PROGRAM

Between 1950 and 1979, this program guaranteed loans made by public or private financing institutions, including Federal Reserve Banks, intended to facilitate performance of defense production contracts. The account was essentially terminated in FY 1978 with the payment of \$.2 million in earnings to Treasury; responsibility for any activity in FY 1979 and subsequent was transferred to the Federal Emergency Management Agency (FEMA) in accordance with Reorganization Plan No. 3 of 1978.

AUTHORITY FOR THE PROGRAM

The authority for GSA to guarantee loans (V-Loans) and to finance expenses, losses, and other authorized costs from revenues derived from operations was contained in Title III, Expansion of Production Capacity and Supply, section 301, of the Defense Production Act of 1950 (P.L. 81-774), as implemented by Executive Order 10161 of September 9, 1950.

HISTORY OF THE PROGRAM

When the Defense Production Act was enacted, provisions were made for the guarantee of loans for the purpose of financing contracts deemed necessary for the procurement of material of performance of services for the national defense.

In April 1951, the GSA Comptroller issued the following procedures for authorizing guarantees:

1. The loan applicant would present financial needs to the financing institution with which it proposed to do business. If the institution required a guarantee, it would submit the application to the Federal Reserve Bank which, in turn, would submit it with appropriate comments through the Board of Governors to the GSA Office of Comptroller.
2. After consultation with the procuring office to determine that the loan was essential to national defense, GSA would advise the Federal Reserve Bank, through the Board of Governors, of its approval or rejection of the application, along with any changes in terms or conditions. Approval contained an authorization to the Federal Reserve Bank to execute the V-Loan Guarantee Agreement on behalf of GSA.
3. Upon demand of a lending institution, the Government was required to purchase the guaranteed percentage of the loan, or the Government could elect to make a voluntary purchase. As a general rule, the program was self-supporting to the extent feasible. All expenses, losses, and other authorized costs were financed out of revenues derived from operations of the program. Under terms of the Defense Production Act, other funds available to the agency could be used to finance costs if revenue were insufficient. Advances from procurement appropriations could be made to this fund for its temporary use, although this was not necessary. Net earnings were retained to meet potential future loan defaults.

Loans guaranteed by GSA were closed out by June 30, 1962, guaranteed earnings were transferred to Treasury, and the "Defense Production Guarantees" account was closed. In 1968, however, the account was reinstated to guarantee a loan resulting from a contract with Duval Sierrita Corporation for expansion of copper production. The Government's maximum liability as guarantor of this one loan was \$4.9 million at the end of 1975. The corporation accelerated its payments schedule and, by the end of the 1976 Transition Quarter, the loan was paid in full.

As of November 10, 1976, there were no GSA loan guarantees outstanding, and the account was considered closed after payment in 1978 of \$236 thousand in earnings to Treasury. Subsequently, Reorganization Plan No. 3 1978 transferred responsibility for any future activity in this account to FEMA.

Revenue, Expense, and Outlays
(In Thousands of Dollars)

<u>Fiscal Year</u>	<u>----- Operations -----</u>		<u>Profit or (Loss)</u>	<u>Outlays</u>
	<u>Revenue</u>	<u>Expense</u>		
1953	----	----	----	----
1954	2,118	13	2,105	-2,105
1955	1,270	11	1,259	-1,259
1956	288	8	280	-280
1957	270	39	231	-231
1958	618	115	503	503
1959	841	250	591	-591
1960	768	6	762	-762
1961	448	3	445	-445
1962	91	3	88	-88

Loans terminated June 30, 1962; reinstated in 1968.

1968	3	1	2	-2
1969	17	2	15	-15
1970	40	1	39	-39
1971	29	2	27	-27
1972	29	1	28	-28
1973	29	1	28	-28
1974	29	----	29	-29
1975	29	----	29	-29
1976	21	----	21	-21
Trans Qtr	7	----	7	-7
1977	11	----	11	-11
1978	---	----	----*	----

*1968-1977 earnings of \$236 returned to Treasury.